

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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SEP 14 1998

In the Matter of )  
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Petition for Rulemaking to Amend )  
Part 32 of the Commission's Rules, ) RM-9341  
Uniform System of Accounts for )  
Class A and Class B Telephone )  
Companies to Adopt the Accounting )  
for Software Required By Statement )  
of Position 98-1 )

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY,  
PACIFIC BELL AND NEVADA BELL

Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell (the "SBC LECs"), pursuant to Public Notice,<sup>1</sup> hereby file their Comments in support of the Petition for Rulemaking (the "Petition") filed by BellSouth and Bell Atlantic on August 3, 1998.

While the SBC LECs generally opposed the changes in accounting standards for software initially proposed by the American Institute of Certified Public Accountants ("AICPA") in its December 1996 "exposure draft," now that the AICPA has adopted software accounting changes in its Statement of Position 98-1 ("SOP 98-1"),<sup>2</sup> the SBC LECs urge the Commission to act expeditiously to permit adoption of SOP 98-1 for Part 32 purposes effective January 1999. To comply with Generally Accepted Accounting Principles ("GAAP"), the SBC LECs must begin to follow SOP 98-1 for external financial accounting purposes in 1999. In order to permit incumbent LECs to avoid the extraordinary burden of an entirely different regulatory accounting

<sup>1</sup> Public Notice, RM-9341, DA 98-1625, released August 13, 1998.

<sup>2</sup> AICPA, "Statement of Position 98-1; Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," March 4, 1998.

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treatment for software, incumbent LECs need to adopt this change for purposes of Part 32 by January 1999. It would be extremely difficult and administratively costly to treat as an expense for purposes of Part 32 the software costs that will have to be capitalized in the external financial accounting records starting in 1999.<sup>3</sup>

Now that this new GAAP accounting standard has been adopted by the AICPA, the SBC LECs support the Petition's goal of permitting incumbent LECs to follow SOP 98-1 and GAAP in their accounting for software under Part 32. The approach taken by BellSouth and Bell Atlantic in their Petition is to propose specific detailed changes to each Part 32 provision affected by the change in accounting standards.<sup>4</sup> However, the SBC LECs urge the Commission to consider an alternative, simpler approach that avoids the necessity of adopting detailed changes to several provisions of Part 32. Instead, the Commission could simply rule that, notwithstanding any other provision of Part 32, incumbent LECs are permitted to account for software in accordance with GAAP and the principles set forth in SOP 98-1. Aside from this one simple ruling, the Commission could designate Account 2690 to be used for all future capitalized software.

This simple method of permitting incumbent LECs to follow GAAP as embodied in SOP 98-1 is also more consistent with the intent of Section 11<sup>5</sup> of simplifying regulation whenever it is no longer necessary in the public interest. Because GAAP and SOP 98-1 provide all the accounting guidance necessary with respect to software, the Commission should no longer

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<sup>3</sup> See Arthur Andersen LLP, "Accounting Simplification in the Telecommunications Industry," filed July 15, 1998 at 16-24.

<sup>4</sup> Petition at 4-6 & Attachment 1.

<sup>5</sup> 47 U.S.C. §161.

attempt to regulate any of the details of software accounting as part of the USOA.

A further similar approach that the Commission could consider is to use its forbearance authority under 47 U.S.C. §10 to permit incumbent LECs to follow SOP 98-1 in their accounting for software, notwithstanding any inconsistent provisions of Part 32.<sup>6</sup> In effect, such a forbearance ruling would permit incumbent LECs to follow SOP 98-1 as if Part 32 were silent as to the accounting treatment of software.

Consistent with this simpler approach (either a simple amendment or forbearance) and with the biennial review of the Commission's depreciation rules and practices advocated by the SBC LECs,<sup>7</sup> the Commission should not prescribe amortization periods or methods for the software to be capitalized pursuant to SOP 98-1. Instead, amortization of such software should be left to the individual LECs based on their own economic analysis consistent with GAAP.<sup>8</sup> Similarly, the Commission should exempt capitalized software from Part 32 requirements that are not necessary or appropriate for an intangible asset, such as the continuing property record requirements in Section 32.2000(e) & (f).<sup>9</sup>

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<sup>6</sup> In this forbearance ruling, the Commission would simply forbear from applying to software all of the Part 32 provisions that the Petition proposes to amend.

<sup>7</sup> SBC Petition for Section 11 Biennial Review, filed May 8, 1998 at 9-10 & Exhibit B. The Commission recently adopted a Notice of Proposed Rulemaking to undertake the biennial review of depreciation, although it has not yet been released. 1998 Biennial Regulatory Review—Review of Depreciation Requirements for Incumbent Local Exchange Carriers, CC Docket No. 98-137, Notice of Proposed Rulemaking, FCC 98-170, adopted July 22, 1998. See Report No. GN 98-11, "FCC Announces Significant Progress on 1998 Biennial Regulatory Review" released August 6, 1998.

<sup>8</sup> Id. at 9; Arthur Andersen LLP, "Accounting Simplification in the Telecommunications Industry," filed July 15, 1998 at 29-30, 35-36.

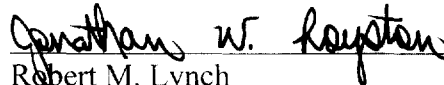
<sup>9</sup> 47 C.F.R. §32.2000(e) & (f).

The SBC LECs agree with the Petition that this change in accounting treatment for software costs would not trigger an exogenous price cap adjustment under the current price cap rules because this accounting change would not have any cash flow impact.<sup>10</sup> For this same reason, the SBC LECs also agree that a revenue requirement study would be a completely meaningless exercise. Accordingly, in permitting incumbent LECs to follow SOP 98-1 for purposes of Part 32, the Commission should give incumbent LECs relief from Section 32.16(a)'s revenue requirement study.

For the foregoing reasons, the Commission should take action promptly by rulemaking, forbearance, waiver or otherwise to permit incumbent LECs to begin following SOP 98-1 for purposes of Part 32 effective January 1999.

Respectfully submitted,

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September 14, 1998

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<sup>10</sup> Petition at 6.

**CERTIFICATE OF SERVICE**

I, Jay Jones, hereby certify that the foregoing "Comments of Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell in the Matter of Petition for Rulemaking to Amend Part 32 of the Commission's Rules, Uniform System of Accounts for Class A and Class B Telephone Companies to Adopt the Accounting for Software Required By Statement of Position 98-1, RM-9341", have been served on September 14, 1998, to the Parties of Record.

A handwritten signature in black ink, appearing to read 'Jay Jones', is written over a horizontal line.

Jay Jones

September 14, 1998

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